

# A Comparison of Select Aspects of Performance-Related Pay Between Local Companies and Branches of Multinational Companies Operating in Slovakia

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## Abstract

The subject of this paper is the issue of the transfer of performance-related pay, as HRM practices, from the parent company to its subsidiaries. The aim of this paper is a comparison of performance-related pay between local companies and the branches of IC. For this purpose, research was carried out in the Slovak Republic in which the existence of statistically significant differences between the subsidiaries of multinational companies and local companies in selected aspects of performance-related pay was tested, such as the subject of performance-related pay, the time horizon of providing performance bonuses, and the composition of the performance fee (the proportion of fixed and variable components rewards). There were three hypotheses tested by using the Student's t-test. The research results have shown the existence of differences in two of these studied aspects.

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**Keywords:** International human resource management, multinational company, rewarding, performance-related pay

## Introduction

It is a known fact that international Human Resource Management (HRM) is a very important part of the management of multinational companies in achieving the desired outcomes that lead to the success and growth of the entire organization (Sojka, and Krúpová, 2015). A key dimension of the long-term success of the organization is the effective management of Human Resources (HR) (Bird, Taylor, and Beechler, 1998). In a multinational company, a prerequisite for achieving the effective management of HR is to ensure the successful transfer of practices and procedures for HRM from the parent company to its subsidiaries, residing in the host country. Successfully managing the transfer and acceptance of HR practices in the host country is a guarantee of success of HRM in an

international environment (Taylor, 1996, in: Riege, 2007). The effective transfer of the HR practices of the parent company to the host country at the same time represents a significant competitive advantage for organizations operating in an international environment (Flood, 2003 in: Riege, 2007). One of the current problems in international HRM is the question involving the extent to which the subsidiaries act as local companies and their capacity to conform to the parent company, or if necessary to some global standards (Rosenzweig and Nohria, 1994).

### **The issue of the transfer of HR practices from the mother country to the host country**

Internationally active organizations are forced to seek a balance between global integration and the need to respect the conditions of the host countries (Bartlett, Ghoshal, and Beamish, 2008). The balance between these two aspects will depend on the extent to which an internationally operating organization accepts a more global or a more local approach (Evans, Pucik, and Barsoux, 2002). Morris, Snell, and Wright (2006) reported that a multinational company should put forth an effort in developing common practices of HRM, and to share best practices from all parts of the organization in order to create a global system aimed at consistency and to achieve efficiency in all of the countries in which the organization operates. At the same time, various subsidiaries seek the recognition and development of HR practices that are appropriate to their local market, workers' rights, cultural traditions, and so on. Effective international management requires a certain sensitivity and an appropriate level of adaptation to the conditions and customs of the host country for the staff in their acquisition, compensation, and other HR activities. Inconsistencies between the cultural, social, and political attributes practices of HRM in the home country and the host country can lead to consequences, such as difficulties in recruiting and hiring suitable candidates, conflicts in work relations, or the unsatisfactory work behavior of employees (Dowling, Festing, and Engle, 2008). Multinational companies are faced with an important issue: what kind of processes and practices can and should be transferred to the host country, and to what extent should they be adapted to the specificities of the country with regard to the prospect of their effective implementation at the local level. In the process of the transfer of different systems and practices, the role of HRM is critical. Managing people is a complex issue because of the diversity of cultural environments in internationally-operated organizations (Rosenzweig, and Nohria, 1994). Expatriates are often used as a means for the transfer and the successful implementation of the transferred practices. In some cases, the organization's management expects that the relocation of employees from the parent company would induce the smooth transfer and

implementation of practices in the host country. This approach is based on the assumption that the desired behavior of local employees can be achieved through various training programs. However, this depends on the ability and willingness of local employees to comply with the required standards of conduct and on the efficiency of the expatriates as agents of socialization.

The key, therefore, becomes the legally effective capacity of HRM in these organizations (Dowling, Festing, and Engle, 2008), and finding a balance between the standardization and localization of HR practices.

The transfer of some HR practices can have an impact on the business market of the country. One of these practices involves rewards. The way the rewards system is set affects the labor market and the demand for jobs. The transfer of the rewards system may determine a higher or lower interest in working for a foreign company; however, the reward is not the only factor that influences the decision to work in a given organization. An important aspect is also the overall pay system, and particularly whether the rewards are linked to the performance of the worker. The strategic objective of any system is to acquire, motivate, and retain competent staff. The rewards system should be set up to attract and retain the best employees. At the same time, it should be remembered that costs also factor into the rewards system. Rewards should be consistent with the overall corporate strategy (Sojka, 2009). Performance pay is a system in which the pay consists of a fixed and variable component, wherein the variable part of the salary is directly dependent upon measurable performance. The role of this type of reward is to motivate employees, their performance orientation, strengthen their commitment to the organization, and to promote a corporate culture that focuses on superior performance, quality, and service (Bajžíková, 2011).

Armstrong (2009) states that there are three reasons for the use of performance-related pay:

1. Motivation - rewards that are tied to performance are more motivating for achieving higher levels of performance.
2. Delegacy - a bonus linked to employee performance shows that their performance, capabilities, and benefits are noticed and rewarded by enterprises.
3. Fairness - pay for performance but also for the benefits and capabilities of employees is fair.

The main objectives of performance-related pay, according to the authors Svetozárovová and Krúpová (2012) include raising productivity and stimulating employees to improve their efficiency. The second objective, in the case of a well-defined system of performance-related pay, is to foster lower employee turnover of the most productive employees while encouraging less productive workers to leave. It is therefore undisputed that

organizations providing performance-related pay will become more attractive employers for more productive employees than would organizations that offer only fixed salaries or salaries where the variable component of pay is not at all or only minimally dependent on the performance of the worker.

Given the fact that in the Slovak business environment, a great number of various multinational companies are active, particularly in the form of subsidiaries or branches, it can be assumed that there are differences in some of the HR practices between these subsidiaries and local companies. The difference in the implementation of certain practices of HRM can have a direct impact on employees and consequently have an impact on the demand for jobs in the subsidiaries of multinational companies and local companies. For the purpose of detecting the current state in the field of HRM in the subsidiaries of multinational companies and local companies, research was carried out in order to identify differences in the implementation of select HR practices. For the purpose of the research, the practice of rewarding was selected. The difference in the implementation of the practice can significantly affect the number and type of job seekers in the organization, and therefore ultimately reflects the composition of the personnel of the organization. Attention in the research is particularly given to performance-related pay, thereby using forms of rewards tied to the actual performance of the worker.

## **Methodology**

The goal of the research was to determine statistically significant differences in the application of performance-related pay between branches of multinational companies (MC) and local companies. Differences were detected in three selected aspects of performance-related pay (dependent variables):

1. Subject of performance-related pay (individual performance, group performance, company-wide performance).
2. The time horizon of providing performance bonuses (i.e., the bonuses tied to performance).
3. The proportion of fixed and variable bonus components.

For the purposes of the research, three statistical hypotheses were tested:

H1: We assume a statistically significant difference in the subject of performance-related pay between local companies and the branches of MC operating in Slovakia.

H2: We assume that there is a statistically significant difference in the time frame for providing performance bonuses between local companies and the branches of MC operating in Slovakia.

H3: We expect a statistically significant difference in the proportion of the fixed and variable parts of salaries between local companies and the branches of MC operating in Slovakia.

The research sample consists of 100 respondents, 50 managers operating in 50 local companies and managers working in the offices of MC with operations in Slovakia. The research was conducted in the months of January to April 2016. For the purpose of data collection, a standardized questionnaire was utilized. The Student's T-test was used for the purpose of testing the hypotheses, with a significance level  $\alpha = 0.05$ .

## Results and discussion

The first variable that was analyzed was the subject of performance pay, which examined the extent to which bonuses are paid for individual performance, group (team) performance, and enterprise-wide performance. The rate of application of performance bonuses was determined by the Likert scale from 1 to 5, where the value 1 expressed no bonus payments based on any type of performance and the value 5 expressed that the employee has been paid a bonus based on their performance.

The results point to the fact that in the case of local companies, up to 80% apply performance pay for enterprise performance, while at the branches of MC only 24% of respondents said that they have always received performance bonuses tied to company-wide performance. Larger differences were found in the rewarding of group performance; this system was more often applied in the branches of MC [58% of respondents conveyed a value of 4 (very often) and 5 (always)]. In the local companies, 56% of respondents confirmed the non-application of performance bonuses for group performance. The most often subject in performance pay, for both types of companies, is individual performance (66% of local companies and 70% of the branches of MC reward each employee for individual achievement). The object of the research was to detect any statistically significant difference in the subject of performance pay between local companies and the branches of MC.

*H1: We assume a statistically significant difference in the subject of performance pay between local companies and the branches of MC operating in Slovakia.*

Statistical testing results confirmed that there is a significant difference between the MC branches and local companies in the extent to which they apply the power of rewards for each type of performance (individual, group, and enterprise-wide performance). The results are shown in Table 1.

Table 1

Company	Amount (n)	Average (mean)	SD	t	p
Local company	50	2.82	1.86	-3.04	0.003
Branch of MC	50	3.45	1.70		

Based on the results, it can be concluded that the branches of MC have an increased use of performance pay for group and corporate performance, while local companies do not apply rewards for these types of performances at all or only to a small extent.

The other variable of interest was the time horizon for providing performance bonuses. Respondents stated whether their performance bonuses are awarded monthly, quarterly, semi-annually, annually, or less frequently than annually. In local companies, most common is that rewards are paid annually, which was confirmed by 62% of respondents, while 10% confirmed that they are often rewarded less than once per year. Only 10% of respondents in local companies confirmed monthly bonus rewards that are linked to the performance of the employee, for instance in the form of allowances, bonuses, etc. In the case of the branches of MC, the payment of annual performance bonuses was confirmed by 42% of informants with 32% reporting monthly bonus payments. In the case of semi-annual bonuses, the results are similar (18% of local companies and 14% of the branches of MC).

*H2: We assume that there is a statistically significant difference in the time horizon for providing performance bonuses between local companies and the branches of MC operating in Slovakia.*

Table 2

Company	Amount (n)	Average (mean)	SD	t	p
Local company	50	3.62	1.03	3.15	0.002
Branch of MC	50	2.84	1.42		

The results of a t-test with a significance level of  $\alpha = 0.05$  confirm that the MC branches and local companies differ in terms of their payments of performance bonuses. According to the research, it is clear that the branches of MC paid bonuses tied to performance more often than local companies, which can be seen as an important indicator of the attractiveness of an organization and hence the resulting interest in working for that organization.

The third variable is the proportion of fixed and variable pay. Therefore, to offer a reward that is motivating and rewarding for an

employee and to encourage their higher performance, it should be as much as possible linked to the actual performance of the worker. It is therefore important to set a structure of rewarding, namely a fixed part (fixed component of the reward that is not dependent of the performance of the employee) and a variable part (variable reward, directly reflecting the performance of a worker, which has a significant leverage effect). Respondents had the opportunity to choose three options:

1. The fixed component is higher than the variable portion of their wages.
2. The fixed component is almost equal to the variable component of their wages
3. The variable component is higher than the fixed component of their wages.

The research results for both types of companies prove to be similar, as most local companies and branches of MC apply a rewards model in which a fixed part of the salary is higher than the variable component (60% local, 50% of the branches of MC). The rewards model composed of a higher representation of the variable component is used by 36% of the branches of IC and 24% of local companies.

*H3: We assume a statistically significant difference in the proportion of the fixed and variable parts of salaries between local companies and the branches of MC operating in Slovakia.*

Table 3

Company	Amount (n)	Average (mean)	SD	t	p
Local Company	50	2.08	0.63	-1.066	0.289
Branch of MC	50	2.22	0.67		

Statistical tests show no difference between local companies and branches of international companies. In both cases, the application model is used instead, with the greater part of the reward consisting of a fixed part. This model guarantees a regular, certain reward for the employee, allowing for the elimination of some stress and not creating excessive demands for worker performance.

## Conclusion

Today, the transfer of Human Resource practices is a normal part of the operation of MC. One commonly transferred practice is the system of rewarding workers. The subject of this article was to determine whether the MC branches and local companies differ in their application of performance-based rewards. Research results confirmed the hypothesis in two cases. It

was found that the branches of MC and local companies differ on the subject of performance rewarding and that local companies apply greater rewards tied to individual performance, in contrast with MC branches who more often implement rewards for group and corporate performance. Differences were also found in the time horizon for bonus payments. For local companies, the most common form of reward is linked to an annual performance bonus or premium. However, annual bonuses may not have as strong an incentive effect as expected. In the case of MC branches, there are a higher number of companies that use the monthly payment of performance bonuses. The time horizon of the payments of bonuses tied to performance is an important determinant of operational efficiency, and it can be assumed that the regular and frequent evaluation and reward of work performance will present a significant incentive for individual performance. The difference between the MC branches and local companies has been confirmed in the proportion of fixed and variable reward components, in which both types of companies have a higher proportion of the fixed component than the variable component. These findings point to the fact that the actions of MC also trigger certain changes in the business environment. Specifically, in the case of staff rewards practices, it is clear that the branches of MC will be a more attractive employer, which in their case will cause higher demand for job positions. Company managers should be aware that the rewards system is an important factor in the decision-making process of the candidate for an open position, and should therefore be adjusted to attract the most suitable applicants and also so that the company stays competitive enough in the sphere of performance rewards to fight for the best workforce on the market, as it is the most important form of capital for a company.

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